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TAGS: [ECON](#) [ETRD](#) [MY](#)  
SUBJECT: MALAYSIA EXPRESSES INTEREST IN TRANS-PACIFIC  
PARTNERSHIP TO DEPUTY USTR MARANTIS

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11. (SBU) Summary: Deputy USTR Marantis accompanied by the Ambassador discussed the Trans Pacific Strategic Economic Partnership (TPP) and other trade issues in meetings with Malaysia's Minister of International Trade and Industry Mustapa, and several other Ministerial level officials during his visit to Malaysia February 3 ) 4. The ministers noted Malaysia's "in principle" desire to join the TPP but noted that stakeholder feedback would be needed before the cabinet made a final decision on entering into TPP negotiations. Mustapa said MITI was currently leading the stakeholder consulting process and would be preparing the final recommendation to the cabinet on the TPP. Minister Yakop, the Head of the Prime Minister,s Economic Planning Unit (EPU), said that MITI was focusing on stakeholder input on sensitive issues like government procurement. Minister of Domestic Trade Ismail assured DUSTR Marantis that Malaysia was moving on core trade negotiating issues including competition policy and IPR issues. Minister of Finance II Husni acknowledged the cabinet,s essentially positive orientation toward the TPP but said government procurement continued to be a sensitive issue and Malaysia would be looking for flexibilities in this area. DUSTR Marantis made it clear that GP had to be included in the negotiation but that countries could negotiate set asides. In their meeting with DUSTR Marantis, Malaysian business community representatives expressed support for and interest in the TPP but noted outstanding concerns among some firms about managing government procurement and certain Malaysian labor issues would need to be addressed The US business community in Malaysia expressed support for the TPP. Malaysia's press coverage of DUSTR Marantis' visit focused on the potential of the TPP to revitalize the US-Malaysia trade relationship. End Summary.

TRANS-PACIFIC PARTNERSHIP  
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12. (SBU) Malaysia's Minister of International Trade and Industry, Mustapa Mohammed, informed Deputy U.S. Trade Representative Marantis and the Ambassador in a meeting February 3 that Malaysia "in principle" would like to move forward on the Trans-Pacific Strategic Economic Partnership (TPP) subject to certain parameters that are yet to be defined. Mustapa outlined a timeline for the GOM to move forward, noting that MITI Secretary General Rahman will take the month of February to consult with various stakeholders and prepare a recommendation to the cabinet. The parameters for Malaysia's negotiating position would then be worked out. Mustapa had implied that Malaysia was hoping to complete this process before the first round of TPP negotiations in March. However, upon hearing from DUSTR Marantis that Malaysia may not be able to participate in that meeting,

Mustapa said that the GOM may then take "a bit more time." Malaysia's public position on TPP, he said, will remain that they have been informed about it and are seeking more details.

13. (SBU) Mustapa agreed with DUSTR Marantis that the work done during the FTA negotiations should help Malaysia should it seek to join the TPP. He recognized that the same issues that held up the FTA negotiations would remain the major obstacles for Malaysia with the TPP, namely service sector reform, liberalization of financial services, and government procurement. Mustapa stated that both sides have no problem understanding each other's positions but bridging the gap remains challenging. However, with U.S.-Malaysia bilateral trade slipping on a relatively large scale, Mustapa was hopeful that joining the TPP negotiations would reenergize the trade relationship.

#### ECONOMIC PLANNING UNIT -----

14. (SBU) Nor Mohamed Yakop, Minister in the Prime Minister's Office in charge of the Economic Planning Unit (and former Finance Minister II) told DUSTR Marantis February 4 that MITI had raised the prospect of the TPP at a Cabinet meeting the previous week and there had been no major issues raised. However, he added that there were some chapters of concern, such as government procurement, and that Trade Minister Mustapa was tasked to get stakeholder views on the TPP. He was unsure of the timing for MITI to return to the Cabinet with its report, but commented that Malaysia joining the June 2010 TPP negotiation round could be realistic. Yakop agreed that it would be good for Malaysia to join the TPP early to

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"add flexibility" in the negotiations and noted that investors take comfort when countries belong to trade and investment arrangements to maintain open and competitive markets. He saw joining TPP as a possible marketing tool for increasing FDI to Malaysia. Yakop listed Malaysia's advantages for FDI as a young population, good infrastructure, and a business friendly government.

#### MINISTER OF FINANCE II -----

15. (SBU) In his February 4 meeting with DUSTR Marantis, Finance Minister II Ahmad Husni Mohammad Hanadzlah (Husni) began by inquiring about the status of the bilateral FTA. Marantis listed several difficult issues that held up the FTA negotiations, including government procurement (controlled by the Ministry of Finance), and explained the U.S. was now focusing its negotiating energy on the TPP. Husni queried on the scope of the TPP and asked if there would be additional "flexibility" in the TPP, especially with regard to government procurement. Marantis explained that Malaysia would need to negotiate the difficult issues including government procurement, although it could, like the U.S. and other members, request reasonable set asides. With regard to financial services, Husni described Malaysia's Financial Sector Master Plan as gradual liberalization, indicating that additional Malaysian flexibility in this area would come slowly. Echoing Yakop, Husni said that the TPP had been raised once in Cabinet, and that its priority was discussed, adding that only after papers were submitted by MITI Minister Mustapa, would the full Cabinet will consider the GOM's approach to the TPP.

#### Ministry of Domestic Trade -----

16. (SBU) DUSTR Marantis met February 4 with Minister of Domestic Trade Ismail Sabri Yaakob (Ismail), Secretary General Mohd Zain (Zain), Deputy Secretary General Daud Bin Tahir, and Malaysian Intellectual Property Corp.(MyIPO) Director General Kamel Mohamad (Kamel). At the minister's

direction, SecGen Zain explained that his ministry understood that the bilateral FTA was not going forward. He said that Ministry of Domestic Trade saw competition policy, government procurement, and IPR issues as significant issues that Malaysia needed to study and understand before being able to commit to the TPP negotiation. Zain said that GOM needed to know what exactly is "high standard" trade agreement, and what would be expected of Malaysia. DUSTR Marantis responded that the negotiating mandate for TPP participants should include all areas covered in our bilateral and that Malaysia would have to take up specific questions with the TPP members

17. (SBU) Minister Ismail assured DUSTR Marantis that Malaysia was moving on key issues. He was pushing for rapid completion of the new "Competition Act", a competition policy law currently under review by the Attorney General (AG) and expected to be tabled to Parliament in March. He said he was aware that Malaysia's lack of a competition law had been an impediment to the U.S.-Malaysia FTA negotiations. Ismail said that the competition law had been tabled to the Cabinet once already and was returned to the AG for revisions. He expected to receive the law from the AG's office next week and that passage would not be controversial. Ismail also discussed IPR issues, stating that Malaysia was toughening almost all of its IPR related laws in 2010 and he expected amendments to be tabled between March and June and enacted prior to year end. Ismail also described the enhanced enforcement efforts, directly or indirectly resulting from our work on the FTA, and most likely transferable to TPP framework.

BANK NEGARA  
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18. (SBU) DUSTR Marantis also met with Bank Negara Malaysia (BN) Deputy Governor Ooi Sang Kuang (Ooi), to discuss how Malaysia's ongoing financial sector reform program would play into its ability create more negotiating room in financial services. Ooi was accompanied by Assistant Governor Sukdave Singh, Director of Financial Sector Development Abdul Rasheed Ghafur, Director of Monetary Policy Fraziali Ismail, and International Department Deputy Director Kristina Rai. Ooi told DUSTR Marantis that during 2009 Malaysia liberalized its financial services sector through allowing higher equity

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participation rates and issuing new licenses and is committed to continue liberalizing its financial services sector over the next 10 to 15 years. Singh explained that BN is now forming a liberalization master plan for the next 10 years. BN sees liberalization as strategic in nature and that gradually adding competition will make their economy more efficient and able face the intense competitive pressures from China, according to Singh.

19. (SBU) After listening to Marantis describe the benefits of the TPP, Ooi emphasized that Malaysia "trade oriented" and said that Malaysia wants to participate in global, regional and bilateral trading arrangements which promote greater trade, investment, and regional integration. He added that Asia is driving global growth and the region and that Malaysia was redefining its growth model to promote domestic demand and growth through increased regional integration. Ooi suggested Malaysia could raise the TPP for discussion at regional forums such as ASEAN.

110. (SBU) In response to questions on the basis and structure of the TPP, DUSTR Marantis said that the agreement will be based on the P4 agreement but that the difficult issues raised in the U.S.-Malaysia bilateral FTA negotiations, such as government procurement, services and financial services, would be part of the TPP. Ooi commented that the pace of Malaysian financial services sector reform may not suit the TPP negotiations, but that there could be some flexibility to dovetail with the TPP.

¶11. (SBU) DUSTR Marantis met separately on February 3 with retired President of the Federation of Malaysian Manufacturers (FMM) Yong Poh Kon (Yong), current FMM Vice President Paul Low and Vice President of the Malaysian Textile Manufacturers Association Y.H. Tan and Malay Industry and Development Board General Manager Rajini Ramlan. Yong opened that as a trading nation Malaysia benefits from free trade agreements (FTAs) and that the FMM is in a position to push the government toward participating in the TPP if it benefits Malaysia. Yong added that at an FMM council meeting last week, council members questioned the need for the TPP since Malaysia has FTAs with most of the initial partners, with the notable exception of the United States. Marantis explained the benefits of the TPP over a bilateral FTA for Malaysia, which included reigniting foreign investor interest in Malaysia and reinforcing ongoing GOM economic reform efforts.

¶12. (SBU) On government procurement, Yong said FMM was very supportive of U.S. efforts to seek reforms which would make Malaysia's government procurement system open and transparent. Rajini, however, raised Malay concerns regarding the U.S. position on politically sensitive Bumiputra (ethnic Malay and other indigenous ethnicities) preferences in government procurement sector. Rajini described the ethnic preference policies as contributing to Malaysian political stability and an important component of Malaysia's economic development. Yong queried whether Malay concerns could be handled by negotiating "margins of preference" in government procurement. DUSTR Marantis responded that a government procurement chapter that provided greater market access to firms from TPP countries would be part deal, but Marantis added that there is a misperception in Malaysia that the U.S. has an all or nothing negotiating stance on GP in free trade agreements. In fact, the U.S. has set asides for some 23% of our \$250 billion government procurement market. Our goal was to establish a transparent system which increased market access while taking into consideration each country's political goals and sensitivities.

¶13. (SBU) Yong asked DUSTR Marantis whether the TPP would use the same U.S. template that was the foundation of the US-Malaysian bilateral negotiations. He noted that Malaysian businesses have similar objectives to Americans in transparency and fair competition, but they were hopeful that there would be some flexibility with regard to labor standards which some firms believed could damage Malaysian manufacturing competitiveness unless differences in the legal structure of Malaysia's protections for workers was taken into consideration. DUSTR Marantis explained that the labor section would include the five core International Labor Organization (ILO) standards, including freedom of association and the right to collectively bargaining.

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AMCHAM and the PRESS  
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¶14. (U) Following DUSTR Marantis' speech on US trade policy at a lunch hosted by the American Chamber of Commerce, U.S. businesses noted support for U.S. engagement in the TPP and expressed hope that Malaysia would choose to participate in the TPP as well. The Malaysian press coverage of DUSTR's Marantis' visit focused on the importance of the TPP as a new negotiating platform and how Malaysian participation in TPP could help Malaysia expand its trading relationship with the U.S.

¶15. (U) USTR delegation has cleared this cable.  
KEITH